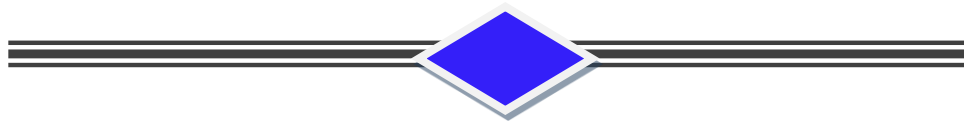
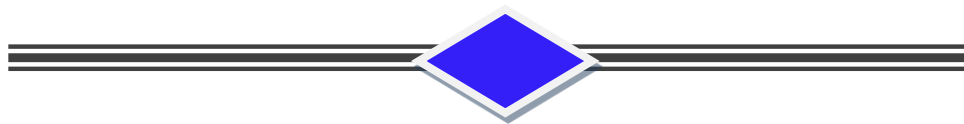


KANSAS STATE EMPLOYEES HEALTH CARE COMMISSION



ANNUAL REPORT



PLAN YEAR
2016

**Kansas State Employees Health Care Commission
2016 Annual Report**

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EXECUTIVE SUMMARY

- Based upon the plan changes implemented by the Health Care Commission (HCC) for PY 2017 including the additional employer and employee contributions, the opinion of the State Employee Health Plan (SEHP) actuaries is that the SEHP fund should have sufficient funds to pay the health care expenses for a self-funded plan covering approximately 100,000 lives for Plan Year 2017.
- Active employee Open Enrollment was held from October 1 through October 31. There were 26,813 employees who utilized the online Open Enrollment system for State employees to review their health plan coverage and save their health plan elections for Plan Year (PY) 2017. Eighty-six (86) Open Enrollment meetings were held for employees in thirty-three (33) cities, and eighteen (18) online Open Enrollment webinars for state employees and six (6) for Non State public employees were held. Staff estimates that approximately 9,800 employees attended these meetings.
- For PY 2017, employees have two (2) plan design options from which to choose: Plan A, a preferred provider organization (PPO), and Plan C, the Qualified High Deductible Health Plan (QHDHP). Both Plan A and Plan C are available from both health plan administrators: Aetna and Blue Cross Blue Shield of Kansas. Plan C members that are not eligible for a Health Savings Account (HSA) are able to elect Plan C with a Health Reimbursement Account (HRA).
- Beginning in PY 2017, the HealthQuest (HQ) Rewards premium incentive discount was reduced from \$480 to \$240 per year. To earn the premium incentive discount for PY 2017, employees needed to complete the health assessment questionnaire worth ten (10) credits and earn an additional 20 credits by participating in health and wellness activities. The number of employees earning the incentive dropped to fifty-seven (57) percent for PY 2017. For PY 2018 the Health Care Commission (HCC) has increased the incentive available to a maximum of \$480 dollars and increased the number of credits needed to earn the incentive to forty (40) credits for the employee and their spouse if covered under the plan.
- Beginning with PY 2016, Medicare-eligible Direct Bill members (retirees) must be enrolled in either the insured Blue Cross Blue Shield Plan C Medicare Supplement program or the Coventry Medicare Part C Advantage insurance plans.

BACKGROUND

The Kansas State Employees Health Care Commission (HCC) was created by the 1984 Legislature through the enactment of K.S.A. 75-6501 et seq. to “develop and provide for the implementation and administration of a state health care benefits program. . . . [It] may provide benefits for persons qualified to participate in the program for hospitalization, medical services, surgical services, nonmedical remedial care and treatment rendered in accordance with a religious method of healing and other health services.” Under K.S.A. 75-6504(b), the HCC is authorized to “negotiate and enter into contracts with qualified insurers, health maintenance organizations and other contracting parties for the purpose of establishing the state health care benefits program.”

The HCC is composed of five (5) members and met five (5) times during 2016. The Secretary of Administration and the Commissioner of Insurance serve as members of the HCC as mandated by statute, while the Governor appoints the other three members. K.S.A. 75-6502 requires one member to be a representative of the general public, one member to be a current state employee in the classified service, and one member to be a retired state employee from the classified service. The 2016 HCC members were:

Sarah Shipman, Chair and Secretary of Administration
J. Scott Day, representative from the general public
Steve Dechant, retired employee from the classified service
Kenneth Selzer, Commissioner of Insurance
Heather Young, active employee from the classified service

An Employee Advisory Committee (EAC) assists the HCC. It is composed of 21 members, 18 of whom are active employees and 3 who participate through Direct Bill. Members are selected on the basis of geographic location, agency, gender, age, and plan participation in order to ensure a balanced membership representing a broad range of employee and Direct Bill member interests. Each member serves a three (3) year term. (See Exhibit A.) The EAC met two (2) times during 2016.

Effective July 1, 2011, the staff that administer the State Employee Health Plan (SEHP) became part of the Division of Health Care Finance within the Kansas Department of Health and Environment (KDHE). The Director of the State Employee Health Benefits Program (SEHBP) reports to the Director of the Division of Health Care Finance. The SEHP is responsible for bringing recommendations to the HCC and with carrying out the operation of the SEHP according to HCC policy. SEHP staff prepared this report. Segal Consulting provided the actuarial and consulting services for the health plan.

I. SUMMARY OF CHANGES AND OTHER ACTIVITIES IN PLAN YEAR 2016

This section provides a summary of improvements, changes, and other activities in the State Employee Health Plan (SEHP) that occurred or took effect in Plan Year (PY) 2016 (i.e., calendar year 2016). The summary includes a record of the HCC's contracting activities during the year and an overview of the enrollment trends during 2016. The HealthQuest program is highlighted separately in Section III of this report. The impact of these plan changes on SEHP finances in 2016 and in future years is summarized in Section IV.

HEALTH PLAN ADMINISTRATION

Beginning with Plan Year (PY) 2008, the SEHP self-insures all of the active employee medical products. PY 2016 represents the ninth full plan year of self-funding all the active employee medical plans. This was the second year of the HCC's three-year contract with each vendor for administrative services. The following vendors provided administrative and network services for the SEHP in 2016:

- Aetna (Plans A & C)
- Blue Cross and Blue Shield of Kansas (Plans A & C)

The SEHP Membership Administration Portal (MAP) for enrollment and membership allows for all enrollment activities to be done online. The portal provides human resource officers enhanced resources for viewing, tracking, reporting and updating employee records. Both Active employees and Direct Bill members utilized the web portal for making their annual open enrollment selections. The MAP system is designed to improve the efficiency of the enrollment process.

HEALTH PLAN DESIGN

The HCC voted to reduce the premium subsidies provided on coverage of dependent spouses, Direct Bill members and Plans C rates for Plan Year 2016. As a result, employee contributions for the health plan overall increased 36.7 percent. Complete plan design and benefit information, as well as the health plan comparison chart, are located on the web at: <http://www.kdheks.gov/hcf/sehp/default.htm>. The HCC also made a policy change effective January 1, 2016, to end member's coverage on the last day of employment; previously, coverage ended on the last day of the month. This change was made to reduce plan costs for the employer.

- **Plan A –**
 - The Primary Care Provider office visit copay increased \$5 to \$30.
 - The Specialist office visit copay increased \$5 to \$50.
 - The network provider deductible increased \$100 for single to \$400 and \$200 for family to \$800.
 - The non network provider deductible increased \$100 for single to \$600 and \$200 for family to \$1,800.
 - The new combined Out of Pocket (OOP) Maximum for medical and pharmacy services is \$4,750 for single and \$9,500 for family.
- **Plan C –**
 - The deductible increased \$150 for single to \$2,750 and \$300 for family to \$5,500.

Complete plan design and benefit information, as well as the health plan comparison chart are located on the web at: <http://www.kdheks.gov/hcf/sehp/PY2016Info.htm>. Final enrollment as of November 30, 2015, for State and Non State active employees was as follows:

Vendor	Plan A	Plan C	Waived
Blue Cross and Blue Shield of Kansas	24,775	14,848	
Aetna	1,082	552	
Waived Coverage			3,644
Total	25,857	15,400	3,644

ADDITIONAL HEALTH PLAN OFFERINGS

Dental Coverage

No changes were made in the value-based dental plan design that encourages members to use preventive care services. This plan design has resulted in the plan experiencing a positive trend of over seventy (70) percent of covered members receiving at least one

preventive office visit or cleaning each year. Members who have their routine exams and cleanings are rewarded with less out-of-pocket cost if they need restorative services.

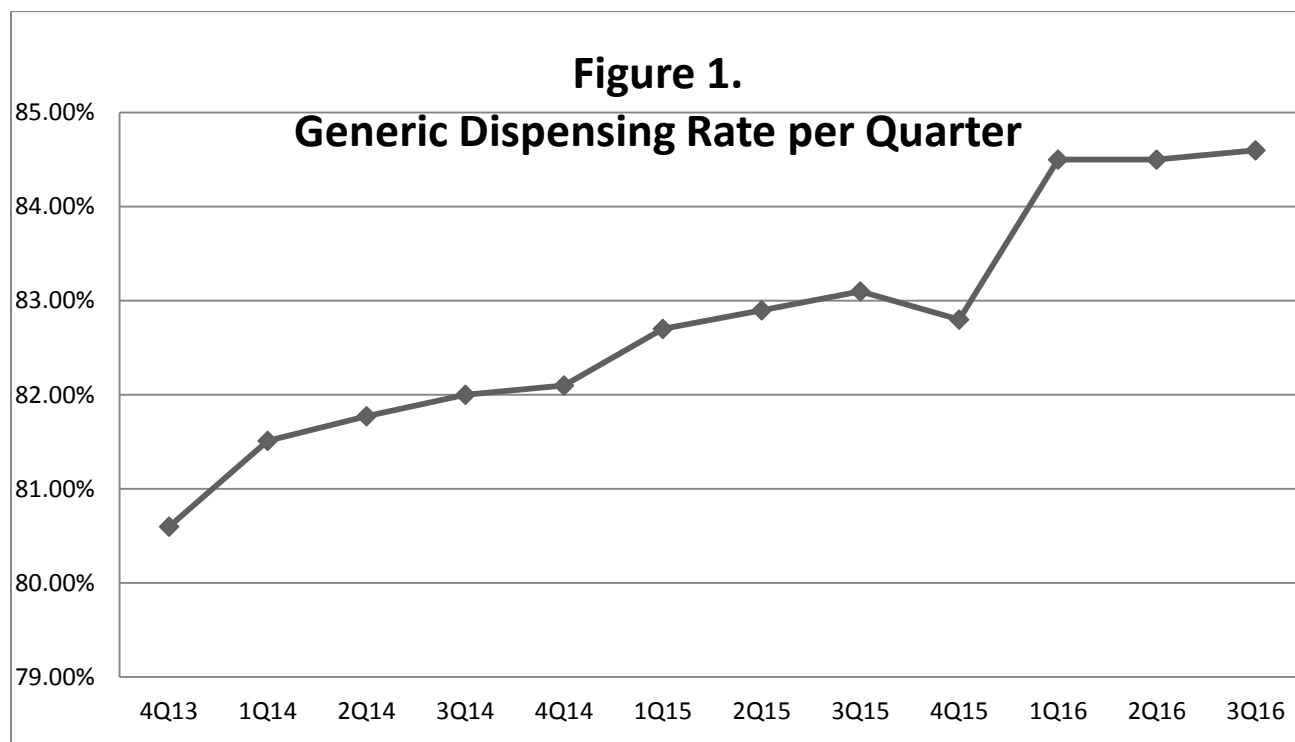
Preferred Lab Services

Members on Plan A have the option of using a preferred lab vendor for covered lab services. The SEHP has negotiated discounts with these preferred labs and, as a result, covered charges are paid at 100 percent by the plan. This benefit results in a cost savings to the health plan and the member. Beginning in 2012, two (2) preferred lab vendors have been available to members. Quest Labs continues to be the statewide and nationwide preferred lab vendor. Stormont-Vail Labs is the regional preferred lab vendor. The preferred lab benefit is optional and members have coverage for lab services provided by other lab providers; however, those services are subject to the plan deductible and coinsurance.

Beginning April 1, 2014, a preferred lab benefit was added to Plan C. The benefit works differently on Plan C due to federal guidelines that govern qualified high deductible health plans (QHDHPs) like Plan C. For Plan C, members that use either of the preferred lab vendors for covered lab work will receive a discount on the price of the lab services. This benefits the member in the deductible phase and the SEHP once the deductible has been satisfied.

Prescription Drug Coverage

The HCC continued its multi-tiered coinsurance plan design for the standard prescription drug plan used for Plan A. The standard plan encourages and rewards cost-effective consumer purchasing through a coinsurance plan design. On Plan C, prescriptions are treated like any other medical service and are subject to the plan deductible and coinsurance. Through proactive plan management, increased consumer awareness, and the introduction of several new generic products, the generic dispensing rate increased from 80 percent in the fourth quarter of 2013 to 84 percent for the third quarter of 2016 (see Figure 1).



Medicare Plans for Direct Bill Members

Direct Bill members with Medicare had the option of two fully insured Medicare Part C Advantage Plans from Coventry, or the Blue Cross and Blue Shield of Kansas Medicare Supplement Plan C insured product, Kansas Senior Plan C. Senior Plan C is available with or without the fully insured Aetna Medicare Part D prescription drug plan.

Premium Billing

Premium billing for the Non State Public Employer Groups and Direct Bill members was done through a jointly administered contract with Medicaid for third-party billing services. Effective July 1, 2016, premium billing for the Non State Public Employer Groups and the

Direct Bill members was done by SEHP staff using the Membership Administrative Portal (MAP). Bringing this service back in house will save the plan over \$200,000 per year.

Long Term Care Insurance

The SEHP offers a Voluntary Group Long Term Care Insurance Program through LifeSecure Insurance Company. The program is offered to State of Kansas benefits-eligible active employees, retired employees, and their family members. The long term care insurance is entirely employee-paid coverage and is not available through payroll deduction.

Section 125 Plan

The SEHP implemented a Section 125 Pre-Tax Premium Option in July 1986. Employees have the option to have their health care premiums deducted from their paycheck using a pre-tax option. This pre-tax deduction reduces the employee's taxable income and reduces the amount of FICA tax owed by the State. Over 97 percent of active employees with group health insurance participate in this option.

The SEHP established Health Care Flexible Spending Accounts (HCFSA) and Dependent Care Flexible Spending Accounts (DCFSA) effective February 1, 1991. In 2011, a limited purpose Flexible Spending Account (FSA) program was added for employees enrolled in Plan C. As Plan C has a Health Savings Account (HSA), the limited purpose FSA provides members the ability to set aside money on a pre-tax basis for eligible anticipated out-of-pocket expenses for dental and vision claims. The administration of the flexible spending accounts is through NueSynergy located in Leawood, KS.

Flexible Spending Accounts (FSAs) require an annual election, and 4,812 State employees elected a medical FSA, Plan C members elected 1,349 limited purpose FSAs, and 1,422 members elected a dependent care FSA.

Voluntary Vision Insurance

Voluntary vision insurance is offered to all enrolled SEHP members through Surency Life and Health, a Kansas-based company wholly owned by our dental carrier, Delta Dental of Kansas.

Enrollment in the voluntary vision plan for Active and Non State Members:

<u>Coverage Level</u>	<u>Enrolled</u>
Basic Plan	10,128
Enhanced Plan	23,244
Total Enrolled	33,372

Direct Bill enrollment in the voluntary vision plan:

<u>Coverage Level</u>	<u>Enrolled</u>
Basic Plan	1,484
Enhanced Plan	4,215
Total Enrolled	5,699

Transparency Tools

The SEHP has contracts with two vendors for transparency tools available to State and Non State employees. These tools are designed to provide members with a better understanding of their health care options, costs and quality.

- **Rx Savings Solutions** located in Overland Park, KS, launched their SEHP pharmacy transparency tool in June 2014. To date, over 11,750 SEHP members have registered an account on the Rx Savings website. If Rx Savings identifies a savings opportunity, SEHP members are notified by phone, email or text. Rx Savings provides the member with the relevant information so that they can discuss their prescription drug options with their physician. Members have the option of logging on to the Rx Savings website for information or calling Rx Savings staff to discussing their prescription drugs with a pharmacist or pharmacy technician.
- **Castlight Health Solutions** launched their SEHP pharmacy transparency tool in January 2015. Members were able to enroll in Castlight as part of the annual open enrollment process this year. To date, over 21,000 SEHP members have registered an account on the Castlight website. Castlight is an online tool that makes it easy to shop for medical care and compare all of the

network provider options, quality ratings of the providers and the price. Castlight is member specific, so information displayed is for the health plan the member is enrolled in, and the pricing reflects the member's health plan's allowed charges for that service and the member's deductible and out-of-pocket costs.

RE-CONTRACTING FOR HEALTH PLAN VENDORS AND SERVICES

The HCC elected to extend the contracts for the OccuVAX Flu Shot Clinic program and for the Employee Assistance Program. The following Requests for Proposals were negotiated during 2016:

Request for Proposal EVT0004249 for flexible spending account administration was released February 25, 2016, and closed on March 20, 2016. Seven (7) bids were received and three (3) bidders were invited to negotiations. The HCC elected to issue a three-year contract to NueSynergy.

Request for Proposal EVT0004104 to administer the HealthQuest wellness program and a weight loss program was released December 9, 2015, and closed on January 20, 2016. Seventeen (17) bids were received; however, four (4) bids were disqualified for not adhering to the bid requirements as they were received after the bid closed. Thirteen (13) bids were evaluated: eleven (11) bids to manage the wellness program and two (2) bids for weight loss programs. Negotiations were held with four (4) wellness vendors and both of the weight loss vendors. The HCC elected to issue a three-year contract to Cerner Corporation to manage the wellness program and a three-year contract to ACAP Health for the Naturally Slim weight loss program.

Request for Proposal EVT0004200 for a pharmacy benefit manager was released February 3, 2016, and closed on March 17, 2016. Six (6) bids were received and three (3) vendors were invited in for negotiations. The HCC elected to issue a three-year contract to CVS/caremark.

Request for Proposal EVT0004482 for an insured Medicare Part D Prescription Drug plan was released June 27, 2016, and closed on July 26, 2016. Two (2) bids were received and both vendors were invited in for negotiations. The HCC elected to issue a three-year contract to Aetna.

II. SUMMARY OF CHANGES FOR PLAN YEAR 2017

This section includes a summary of health plan improvements developed and approved by the HCC in 2016 for implementation in Plan Year (PY) 2017, which began January 1, 2017.

HEALTH PLAN ADMINISTRATION

This was the third year of the HCC's three-year contract with each vendor for administrative services. The following vendors will provide administrative and network services for the SEHP in 2017:

- Aetna (Plans A & C)
- Blue Cross and Blue Shield of Kansas (Plans A & C)

HEALTH PLAN CHANGES

The HCC voted to increase the employee contributions for the health plan by nine (9) percent. In addition to the nine (9) percent increase, the HCC voted to reduce further the premium subsidies provided for covered spouses, resulting in a higher overall increase on the employee contribution for the member and spouse and family tiers. The subsidies for Direct Bill members were completely eliminated resulting in significant cost increases for the Non Medicare Direct Bill members enrolled in Plans A or C.

Complete plan design and benefit information, as well as the health plan comparison chart, are located on the web at: <http://www.kdheks.gov/hcf/sehp/default.htm>. In addition to the increased employee contributions, a number of plan design changes were approved by the HCC to reduce the cost of the plan:

- **Plan A –**
 - The Primary Care Provider office visit copay increased \$10 to \$40.
 - The Specialist office visit copay increased \$10 to \$60.
 - The Network provider deductible increased from \$400 for single to \$1,000, a new second tier deductible of \$2,000 was added and the family deductible increased from \$800 to \$3,000.
 - The Non Network provider deductible increased from \$800 for single to \$1,200, the second tier deductible increased from \$1,200 to \$2,400 and the family deductible increased from \$1,800 to \$3,600.
 - The combined Out of Pocket (OOP) Maximum for medical and pharmacy services increased from \$4,750 to \$5,750 for single and from \$9,500 to \$11,500 for family.
 - Plan A Pharmacy changes:
 - Coinsurance for Preferred Brand Name Drugs increased from thirty-five (35) percent to forty (40) percent.
 - Coinsurance for Non Preferred Brand Name Drugs increased from sixty (60) percent to sixty-five (65) percent.
 - Coinsurance for Special Case Medications increased to forty (40) percent to a maximum of \$100 per thirty (30) day supply.
 - Coinsurance for anti-cancer medications remains twenty (20) percent but the maximum increased to \$100 per thirty (30) day supply.
 - Chronic Care Benefit for asthma and diabetic drugs:
 - Generic drugs: Ten (10) percent Coinsurance to a new maximum of \$20 per thirty (30) day supply.
 - Preferred Brand Name Drugs: Twenty (20) percent Coinsurance to a new maximum of \$40 per thirty (30) day supply.
 - Amounts paid by patient assistance programs on Specialty Drugs will not count toward the member's Deductible or Out of Pocket Maximum.
 - Compound medications will only be covered if purchased from a Network pharmacy.
 - Ninety (90) day supplies of most medications will be available at retail or mail.
- **Plan C –**
 - The Plan C Deductibles remain unchanged at \$2,750 for single and \$5,500 for family.
 - The combined Out of Pocket (OOP) Maximum for medical and pharmacy services increased from \$2,750 to \$5,000 for single and from \$5,500 to \$10,000 for family.
 - Coinsurance will apply to medical and pharmacy services after the Deductible has been satisfied.
 - Medical Coinsurance:
 - Network Providers: Twenty (20) percent Coinsurance will apply.

- Non Network Providers: Fifty (50) percent Coinsurance will apply.
- Prescription Drug Coinsurance:
 - Generic Drugs: Twenty (20) percent Coinsurance
 - Preferred Brand Name Drugs: Forty (40) percent Coinsurance
 - Non Preferred Brand Name Drugs: Sixty-five (65) percent Coinsurance
- Plan C Pharmacy changes:
 - Amounts paid by patient assistance programs on Specialty Drugs will not count toward the member's Deductible or Out of Pocket Maximum.
 - Compound medications will only be covered if purchased from a Network pharmacy.
 - Ninety (90) day supplies of most medications will be available at retail or mail.
- **Plan C HRA and HSA Employer Funding Changes:**
 - The employer contribution will now be made quarterly instead of semi-annually.
 - The employer contribution to the HRA or HSA was reduced \$500 for coverage tiers employee only and employee and children. For coverage tiers that include the spouse, the reduction was \$1,000. The contributions are now:
 - Employee Only - \$1,000
 - Employee & Spouse - \$1,250
 - Employee & Children - \$1,750
 - Family - \$1,250
 - The employee and the spouse can each earn back the reduced HRA or HSA dollars up to \$500 each by participating in the HealthQuest wellness activities.
- **Dental Plan Changes:**
 - Employee only dental program will now have an employee paid monthly contribution of \$12.
 - Employees may now opt out of enrolling in dental coverage.
 - Member Coinsurance for the Basic plan coverage of major restorative services increased from 50 percent to 60 percent for PPO providers and 70 percent for Premier or Non Network providers.

OPEN ENROLLMENT FOR PLAN YEAR 2017

Active employee Open Enrollment was held from October 1 through October 31. Eighty-six (86) Open Enrollment meetings were held for employees in thirty-three (33) cities, and eighteen (18) online Open Enrollment webinars for state employees and six (6) for Non State public employees were held. Staff estimates that approximately 9,800 employees attended these meetings.

There were 26,813 employees who utilized the online Open Enrollment system for State employees to review their health plan coverage and save their health plan elections for Plan Year (PY) 2017. Non State Groups also enrolled online and 3,916 Non State employees made health care elections.

Final enrollment numbers as of November 9, 2016, for State and Non State active employees were as follows:

Vendor	Plan A	Plan C	Waived
Blue Cross and Blue Shield of Kansas	23,556	15,740	
Aetna	1,071	482	
Waived Coverage			4,179
Total	24,627	16,222	4,179

Vendor	Elected	Waived
Delta Dental	40,367	4,661

Flexible Spending Accounts (FSAs) require an annual election, and 4,812 State employees elected a medical FSA, Plan C members elected 1,349 limited purpose FSAs, and 1,422 members elected a dependent care FSA.

Enrollment in the voluntary vision plan through Surency for Active and Non State Members:

<u>Coverage Level</u>	<u>Enrolled</u>
Basic Plan	9,149
Enhanced Plan	24,161
Total Enrolled	33,310

Voluntary benefits for Accident, Critical Illness, Cancer and Medical Bridge policies were offered for the first time by the State Employee Health Plan for Plan Year 2017. Colonial Life representatives attended the open enrollment meetings and were on-site at 148 different locations to meet with employees one-on-one to discuss the health plan benefits and the voluntary benefits. The number of employees at the locations varied from eight (8) employees to over 5,000 employees. The benefit counselors met with 880 employees with 85 calling into the call center. There were 455 employees who enrolled in one or more policies for a total of 837 policies issued for a 47% participation rate by the employees who visited with a counselor.

The enrollment in each policy was:

- Accident 309
- Critical Illness 169
- Cancer 259
- Hospital Confinement 100

Direct Bill

The Direct Bill open enrollment for retirees was held from October 16 through November 15, 2016. The Direct Bill call center staff conducted twenty-four (24) Direct Bill open enrollment meetings at eleven (11) locations throughout the state and eight (8) online webinars. There were 2,309 individuals attending these meetings.

This was the seventh year for retirees to use the online open enrollment system. Those members who elected to make no health plan enrollment changes did not need to take any action, as their current election will roll forward for Plan Year 2017.

Enrollment numbers as of November 23, 2016:

Direct Bill Pre-Medicare Population

Vendor	Plan A	Plan C	Total
Aetna	21	5	26
BCBS of Kansas	799	638	1,437
Total	820	643	1,463

Direct Bill Medicare-Eligible Population

Vendor	Ks. Senior Plan C	Advantra Freedom PPO	Advantra Liberty PPO	Total
BCBS of Kansas	8,463			8,463
Coventry		708	17	725
Aetna Part D – Premier Option	2,965	70	3	3,038
Aetna Part D – Value Option	80	7	1	88

All Direct Bill Members

Vendor	Dental	Basic Vision	Enhanced Vision	Total
Delta Dental	10,181			10,181
Surency Vision		1,428	4,212	5,640

NON STATE PUBLIC EMPLOYERS

K.S.A. 75-6506(c) authorizes the Kansas State Employees Health Care Commission to designate by rules and regulations the inclusion of public schools and certain local governmental entities into the SEHP. The following chart shows the enrollment by type of eligible group as of January 1, 2017:

Summary	Number of Groups	Covered Employees
Educational Entities	31	2,909
Cities	51	466
Counties	29	2,774
Townships	2	21
Public Hospitals & Community Mental Health Centers	18	1,577
Misc. Local Governmental Entities	41	203
Total	172	7,950

III. PROGRAM HIGHLIGHT: SEHP HEALTHQUEST PROGRAM

PROGRAM HIGHLIGHTS

The SEHP's HealthQuest (HQ) program goal continues to be improving the health of members and decreasing overall health costs. Beginning with PY 2013, the HQ program has offered the HQ Rewards premium incentive discount program. The rewards program includes a health assessment questionnaire and encompasses a wide variety of health awareness and improvement programs. The goal of the program is to engage employees in their health and wellness and reduce the number and severity of claims. Participation in the new HQ Rewards Program is optional. Employees who elect not to participate in the HQ Rewards Program are still eligible for coverage under the SEHP and pay the full employee premium rate. Complete program details are available at: <http://www.kdheks.gov/hcf/healthquest/rewards.html>.

Free biometric health screenings are offered throughout the state. The screenings provide employees with basic biometric information about their health. The biometric values are used to complete the health assessment questionnaire which provides additional information and feedback to the employee about their health and ways to improve it. At-home test kits are also available to obtain the biometric information for members who are unable to attend a health screening event. Members may participate in a variety of wellness challenges and activities throughout the year. A wellness portal is available at: www.kansashealthquest.com.

The qualification period to earn the HQ Rewards premium incentive discount for PY 2017 was November 16, 2015, through November 15, 2016. To earn the incentive discount, employees had to complete the online or paper health assessment questionnaire worth 10 credits and earn an additional 20 credits by participating in other programs. Employees could select from a wide variety of activities to earn additional credits. Those who completed the online health assessment and earned twenty (20) additional credits, earned the HQ Rewards premium incentive discount of \$20 per month toward their PY 2017 premium. The reduction in the discount resulted in a decreased number of members completing the wellness activities from previous years.

The credits for the program were also modified and additional credit offerings have been included for 2017 along with requirements for verification of biometric data. Plan C members will earn credits and HRA or HSA dollars for participating in the new incentive program. Employees and their covered spouses on Plan C can earn up to \$500 each toward the employee's HSA/HRA by completing HealthQuest activities. HSA/HRA dollars earned will be paid to the employee during Plan Year 2017. Additional information on the new programs can be found on our website at: <http://www.kdheks.gov/hcf/healthquest/rewards.html>.

This is the sixth year of the HQ program. Cerner Corporation of Kansas City is the new wellness vendor starting January 1, 2017, and running through December 31, 2017. For PY 2018, the HCC voted to return to a maximum discount of \$40 a month (\$480) but with changes to the credits and how the discount is earned:

- For employees with employee only or employee and children coverage, the employee must earn forty (40) credits by completing HealthQuest activities, including the required Health Assessment Questionnaire (HAQ), to earn the premium incentive discount of \$480 for Plan Year 2018.
- For employees with covered spouses, both can earn \$240 of the premium incentive discount by earning forty (40) credits and completing the Health Assessment Questionnaire (HAQ). If only one completes the required forty (40) credits, the discount earned is \$240. If both earn the forty (40) credits, the discount earned is \$480.

IV. FINANCING

During 2016, the HCC continued to receive periodic financial reports summarizing plan revenues, expenditures, and both current and projected balances in SEHP funds. This section summarizes the financial status of the SEHP, including a discussion of funding balances, revenue, and expenses.

BEGINNING BALANCE

The beginning balances shown at the top of **Table 1** and **Table 2** indicate the total amounts of cash in the various funds available to the SEHP. Table 1 is the SEHP ten (10) year projection sheet that is reviewed and approved on an annual basis by the HCC. Funds available to the SEHP are referred to as the “**Reserve**.” The beginning balance of the Plan Reserve are the funds available at the beginning of each year which includes monies remaining from payroll collections (employees and state agencies), Direct Bill contributions from retirees, COBRA contributions and Non State public employer contributions after all expenses have been paid from the previous plan year. An audit finding of the US Department of Health and Human Services resulted in an order that the State of Kansas pay the federal government for interest income on these SEHP funds that were allocated to the State’s general fund. As a result, the fourth installment payment of \$2,974,476 to Health and Human Services was made in 2016. Based upon past experience, it is estimated that the interest earned on the Reserve fund will be one (1) percent over the long term even though the FY 2016 rate was less than the 1 percent.

PLAN REVENUES

Plan revenues are the sums received from contributions by State agencies, Non State public employers, employees, and retirees, plus interest earned by the plan. Past experience with fund balances, revenues, and expenses are represented in a historical chart (**Figure 2**) based upon fiscal years running from July 1 to June 30. Projected balances, revenues, and expenses are based upon plan years running from January 1 to December 31.

The “**Total Contributions**” figure on **Table 1** for PY 2016 is based upon the contributions made by State agencies, Non State public employers, and employees. The State agency and Non State public employer contributions are adjusted on the first of July each year. The employee contributions are adjusted January 1 of each year. The projections shown in **Table 1** incorporate the estimated impacts of contribution rates in effect for PY 2016, as described above.

PLAN EXPENSES

Plan expenses are payments for medical, dental, and drug claims, plus related contract administration fees that are paid by the plan. The historical plan expenses (**Table 2**) represent actual experience, whereas projected plan expenses (**Table 1**) are estimates reflecting a long-term managed health care cost trend. The total annualized cost of the SEHP for PY 2016 is estimated to be approximately \$523,609,000 per Table 1. Past experience and future projections for the plan contributions, expenses, ending reserve balances and target reserve are represented in the Projected Reserve Balance (**Figure 3**) that is calculated on the health plan year which is January 1 through December 31.

ADMINISTRATION

Administration is the cost to maintain the program, including employee salaries, consulting fees, and other expenses. It is assumed in the projections that costs will grow 2.0 percent annually. SEHP administrative costs represent less than 1 percent of health plan expenditures.

PLAN RESERVES

The HCC’s funding objective in managing the SEHP over the long term is to have a target reserve equal to the actuarially-calculated claims Incurred But Not Reported (IBNR), plus a reasonable contingency to account for unforeseen and unexpected growth in health costs that could arrive before plan revenue can be adjusted. The target reserve will be adjusted for health cost trend over time. **Table 1** shows the projected target reserve for each year based upon a function of Plan Contributions, Plan Expenses, and health care cost trend. The estimated target reserve for health claims in PY 2016 was \$56.7 million (**Table 1**). Target reserves are projected to rise over time based upon health cost trend.

Table 2 and **Figure 2** show SEHP balances, revenues, and expenditures from state Fiscal Year (FY) 2001 through 2015. These reserves reflect actual historical experience as reported in the Statewide Cost Allocation Plan documents for each state fiscal year and

the single state financial audit reports for those years. In PY 2009, legislative action resulted in state agencies not contributing the employer contribution for seven pay periods in FY 2009, resulting in a \$64 million decrease in the fund balance. In FY 2010, legislative action reduced the fund by \$9.675 million per S.B. 572. In FY 2015, the HCC voted to reduce the State of Kansas employer contribution by 8.5 percent based on an actuarial analysis to begin the reduction of the current fund balance to meet the target reserve balance. In FY 2016, the HCC voted to hold the State of Kansas employer contribution flat to continue the fund balance reduction towards the target reserve. With these two decisions the fund balance was reduced. For FY 2017, the HCC voted for a 7 percent State of Kansas employer contribution increase to maintain the financial stability of the health plan.

SUMMARY

- In Plan Year 2016, healthcare costs increased less than what was originally projected. Based upon the plan changes implemented by the Health Care Commission (HCC) for PY 2017 including the additional employer and employee contributions, the opinion of the State Employee Health Plan (SEHP) actuaries is that the SEHP fund should have sufficient funds to pay the health care expenses for a self-funded plan covering approximately 100,000 lives for Plan Year 2017.

Table 1
Division of Health Care Finance
Projected Reserve Calculation
Medical Pharmacy, Dental and Vision
Projection as of October 2016

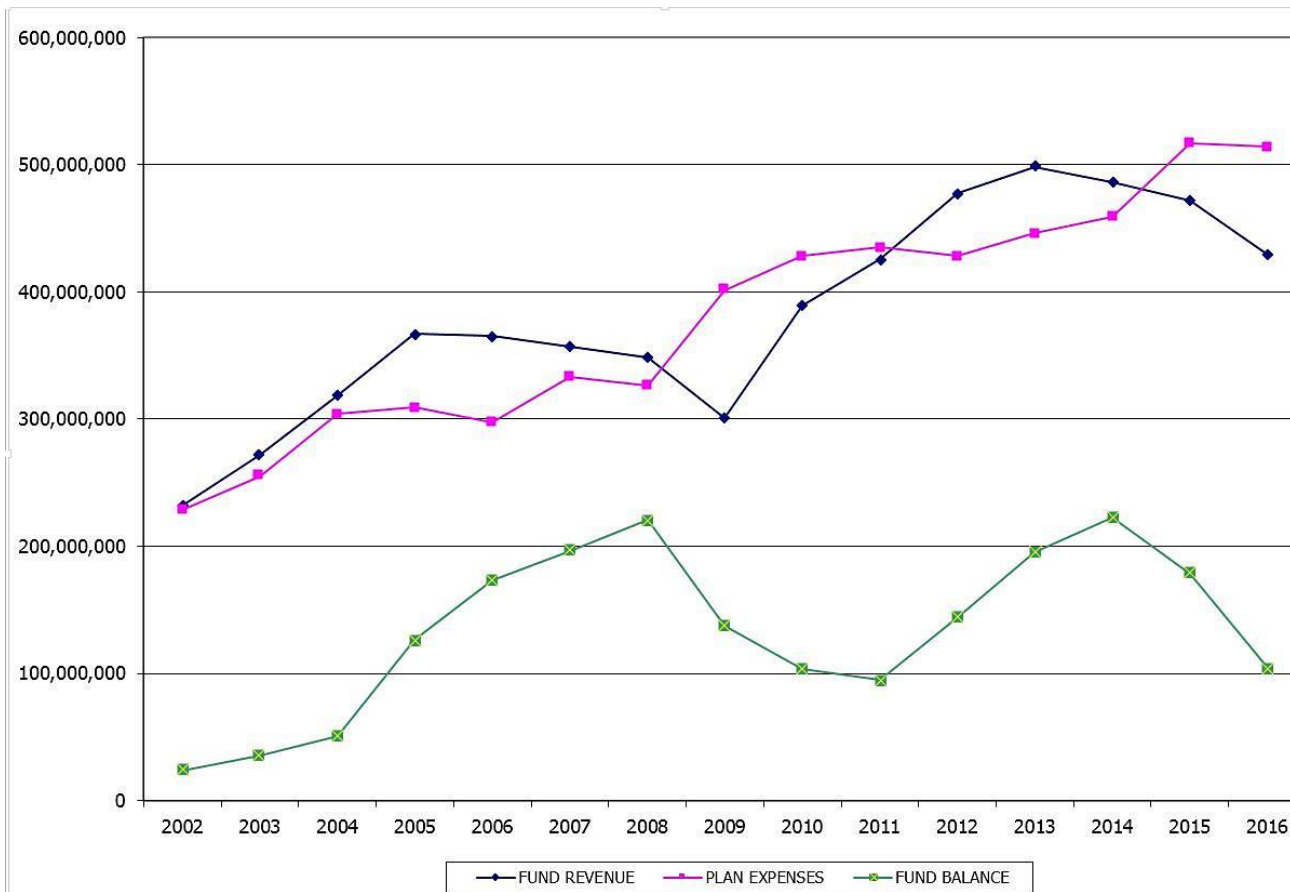
Plan Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Factors and Assumptions	Actuals										
Interest Rate on Reserves	0.2%	0.3%	0.5%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Admin/Contract Fee Trend	0.8%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Medical cost trend rate	7.5%	5.0%	5.5%	5.5%	6.0%	6.0%	6.5%	6.5%	6.5%	6.5%	6.5%
Rx cost trend rate		10.0%	9.0%	8.0%	7.5%	7.0%	6.5%	6.5%	6.5%	6.5%	6.5%
Policy Choices	HCC Policy Choices by Aug 2014	HCC Policy Choices by July 2015	Future Policy Choices:.....								
State Employer Contr. % inc. (eff. July 1)	-8.5%	0.0%	7.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Non-State Employer Contr. % inc. (eff. July 1)	0.0%	6.0%	7.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Contribution % increase											
Active Employee Only	0.0%	36.7%	9.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Spouse Only	0.0%	36.7%	30.4%	27.4%	27.4%	13.8%	4.4%	8.5%	8.5%	8.5%	8.4%
Retiree Rate Increase		21.30%	51.4%	2.7%	7.2%	8.1%	4.4%	6.4%	6.4%	6.4%	6.4%
Beginning Total Reserve Balance	194,666,302	124,938,539	44,719,534	35,570,781	39,744,610	53,370,214	63,442,146	74,619,963	83,064,484	88,337,605	89,926,155
Projected Cash Flow											
Total Employer Contributions	344,369,078	331,166,340	341,337,388	357,210,195	371,759,991	386,634,828	402,527,554	418,646,167	435,637,688	453,518,203	471,917,906
Total Participant Contributions	107,742,610	120,563,184	156,822,063	170,333,093	198,093,377	218,168,466	228,289,917	244,566,164	262,016,521	280,728,643	300,690,881
Total Contributions	452,111,688	451,729,523	498,159,451	527,543,288	569,853,368	605,003,294	630,789,471	663,214,331	697,654,209	734,246,846	772,608,787
Total Plan Expenses (Claims, ASO fees & contracted expenses)	522,197,886	532,327,776	507,531,751	523,636,239	556,525,849	586,331,638	620,187,469	655,529,460	693,204,072	733,320,828	775,832,307
Interest on Reserves	358,445	379,248	223,598	266,781	298,085	400,277	475,816	559,650	622,984	692,532	674,446
Net Cash Flow	(69,727,763)	(80,219,005)	(9,148,763)	4,173,829	13,625,604	40,071,932	11,177,816	8,444,521	5,273,121	1,588,560	(2,549,074)
Projected Reserve Balance	124,938,539	44,719,534	35,570,781	39,744,610	53,370,214	63,442,146	74,619,963	83,064,484	88,337,605	89,926,155	87,377,082
Reserve Ending Balance	57,993,069	58,779,468	55,392,286	57,297,080	60,786,318	65,548,897	68,470,999	72,767,540	77,338,733	82,210,944	87,377,081
Target Reserve											

Table 2

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Figure 2

History of State Employee Health Plan



Notes:

1. Legislative action resulted in state agencies not contributing the employer contribution for seven pay periods in FY 2009, resulting in a \$64 million decrease in the fund balance.
2. In FY 2010, legislative action reduced the fund by \$9.675 million per S.B. 572.

Figure 3
Projected Reserve Balance
Annual Contributions, Expenses and Fund Balances

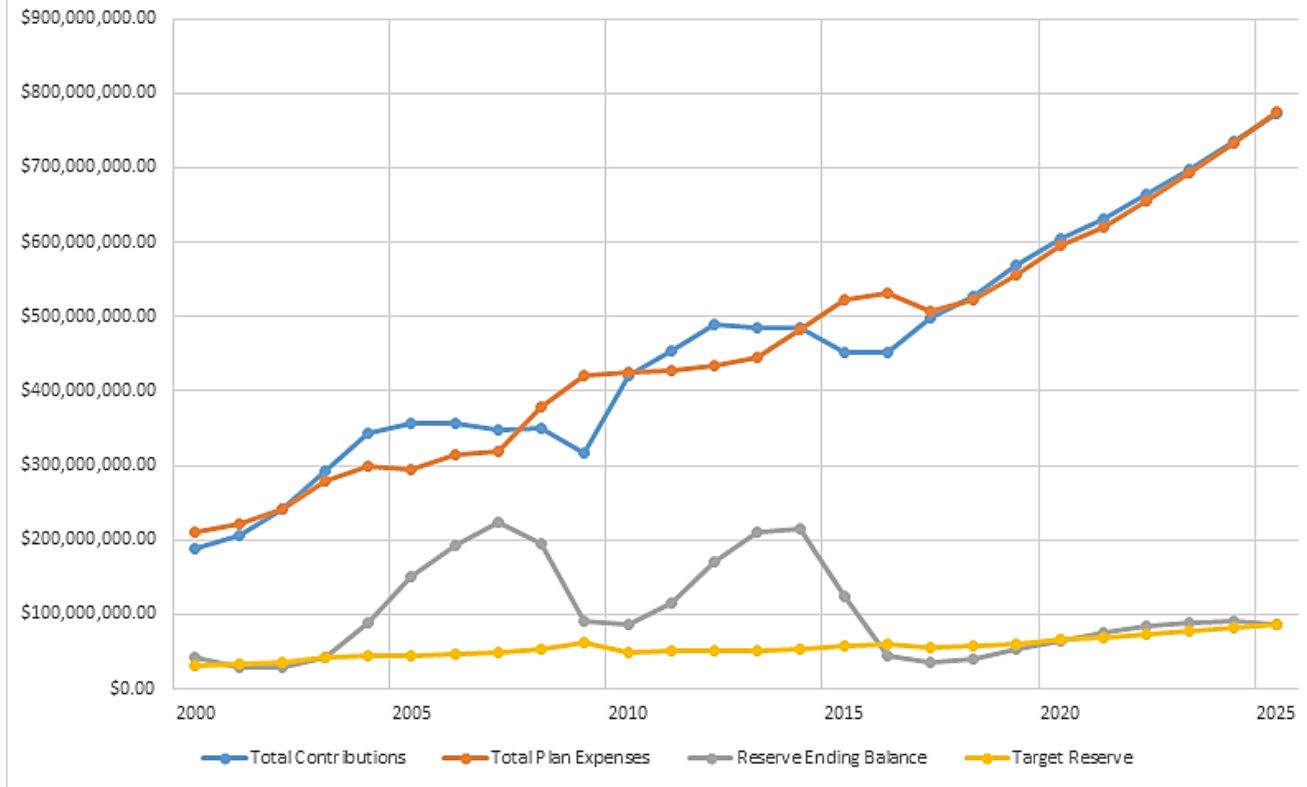


Exhibit A
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Exhibit B				
2016 State Employee Health Plan				
Enrollment by Group & By Participant Type				
Grand Total Covered Lives (State & Non-State Active, Direct Bill, & COBRA)				
Type of Participant	Jan-16	Apr-16	Jul-16	Oct-16
Active State Employees	34,317	34,295	33,437	33,929
Active State EE Dependents	38,183	38,163	37,446	37,626
Total Covered Lives	72,500	72,458	70,883	71,555
Direct Bill State Retirees	10,534	10,458	10,434	10,366
Direct Bill State Ret Dependents	501	456	449	428
Total Covered Lives	11,035	10,914	10,883	10,794
COBRA State Participants	130	161	220	247
COBRA State Dependents	276	259	334	364
Total Covered Lives	406	420	554	611
Active Educational Employees	2,463	2,457	2,408	2,397
Active Educational EE Dependents	3,913	3,930	3,896	3,863
Total Covered Lives	6,376	6,387	6,304	6,260
Direct Bill Educational Retirees	408	396	389	414
Direct Bill Educational Ret Dependents	89	76	74	90
Total Covered Lives	497	472	463	504
COBRA Educational Participants	10	7	7	9
COBRA Educational Dependents	9	11	13	13
Total Covered Lives	19	18	20	22
Active City/County/Township Employees	2,915	2,935	2,963	2,951
Active City/County/Township EE Dependents	5,685	5,636	5,639	5,612
Total Covered Lives	8,600	8,571	8,602	8,563
Direct Bill City/County/Township Retirees	150	148	158	155
Direct Bill City/County/Township Ret Dependents	29	22	22	22
Total Covered Lives	179	170	180	177
COBRA City/County/Township Participants	16	7	7	8
COBRA City/County/Township Dependents	27	17	17	18
Total Covered Lives	43	24	24	26
Active Hospital or Mental Hlth Center Employees	1,125	1,134	1,101	1,079

Active Hospital or Mental Hlth Center EE Dependents	1,739	1,779	1,731	1,686
Total Covered Lives	2,864	2,913	2,832	2,765
Direct Bill Hospital or Mental Hlth Center Retirees	14	15	16	19
Direct Bill Hospital or Mental Hlth Center Ret Dependents	4	7	8	4
Total Covered Lives	18	22	24	23
COBRA Hospital or Mental Hlth Center Participants	7	9	15	17
COBRA Hospital or Mental Hlth Center Dependents	6	6	12	18
Total Covered Lives	13	15	27	35
Active All Other Non-State Employees	187	193	190	213
Active All Other Non-State EE Dependents	299	296	273	300
Total Covered Lives	486	489	463	513
Direct Bill All Other Non-State Retirees	16	19	21	20
Direct Bill All Other Non-State Ret Dependents	2	4	8	6
Total Covered Lives	18	23	29	26
COBRA All Other Non-State Participants	5	4	2	2
COBRA All Other Non-State Dependents	11	11	9	9
Total Covered Lives	16	15	11	11
Total Contracts	52,297	52,238	51,368	51,826
Total Covered Lives	103,070	102,911	101,299	101,885

Exhibit C 2016 Non State Entities Enrollment		
Effective Date	Group Name	Type
2/1/2016	City of Melvern	City
2/1/2016	City of Lake Quivira	City
10/1/2016	City of Wetmore	City
7/1/2016	Jewell County Hospital	Hospital

Exhibit D
Kansas State Employees Health Care Commission
Plan Year 2016 Estimated Annualized Costs (Unaudited)

	<u>Estimated 2016 Costs</u>
<u>Annualized</u>	
1. 2016 Projected Total Cost¹	\$ 527,606,404
2. 2016 Estimated Total Cost²	
a. Blue Cross Blue Shield of Kansas (BCBS)	\$ 338,135,000
b. Aetna	\$ 12,351,000
c. Aetna Medicare Part D	\$ 1,213,000
d. BCBS Kansas Senior Plan C	\$ 20,585,000
e. Coventry Advantra PPO	\$ 1,346,000
f. Delta Dental of Kansas	\$ 1,602,000
g. Caremark Rx Claims	\$ 88,363,000
h. Surency Vision Premiums	\$ 30,311,000
i. Federal Fees	\$ 2,975,000
j. Affordable Care Act Fees	\$ 3,246,000
k. Contract Fees	\$ 5,261,000
l. Health Savings/Health Reimbursement	\$ 33,630,000
TOTAL	\$ 539,018,000
3. 2016 State and Non State Employee, COBRA, Direct Bill Contributions²	\$ 120,705,816
4. 2016 State of Kansas and Non State Employer Contributions^{1, 2}	
a. Projected	\$ 332,223,786
b. Actual	\$ 331,166,340
c. Percent Difference	.32%

¹ 2016 Projected Totals come from the 10-year projection sheet presented and approved at the August 30, 2016, Health Care Commission Meeting.

² These values were developed by annualizing data received through November 2016. Intra-year trend, deductible leveraging, and migration were not considered. Data has not been audited further.